

# Fiscal Note

*Fiscal Services Division*



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**HF 2359** – Military Family Tax Exemptions (LSB 6163HV)

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Fiscal Note Version – New

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## **Description**

**House File 2359** exempts military survivor benefits from the Iowa individual income tax. This Bill also specifies that military survivor benefits are not to be included when calculating Iowa income tax filing thresholds. The change is retroactive to January 1, 2014.

## **Assumptions**

- The new income tax exemption in this Bill will apply to 686 taxpayers below age 65. For those tax returns, the amount of military survivor benefits received totaled \$5.1 million for tax year 2012 and the average marginal income tax rate was 5.9%.
- The new income tax exemption in the Bill will apply to 1,717 taxpayers age 65 and older. For those tax returns, the amount of military survivor benefits received totaled \$16.4 million for tax year 2012 and the average marginal income tax rate was 4.3%.
- An additional 1,717 taxpayers age 65 years or older are assumed to be receiving military retirement benefits, but their income falls below Iowa's senior tax filing threshold and are therefore exempt from Iowa income tax.
- Income exempted under this Bill will increase 2.0% per year.
- The exempted income is not assumed to be the only income source for the taxpayers, so 100.0% of survivor's benefits are taxable.
- The Bill is retroactive to January 1, 2014, but will not be enacted for several months after that date. The income tax reduction associated with the January 1, 2014 through June 30, 2014 period will impact General Fund receipts in FY 2015.
- Actions that reduce taxable income also reduce any local option income surtax for schools that the taxpayer may be subject to. The statewide average surtax is 3.5% of State income tax liability.

## **Fiscal Impact**

The new income tax exemption for military survivor benefits is projected to reduce net General Fund revenue by \$1.6 million in FY 2015 and \$1.1 million in each fiscal year thereafter.

Since the expanded income tax exclusion will reduce Iowa taxable income, it will also reduce the revenue received by local school districts through the local option income surtax for schools by \$39,000 per year, beginning FY 2015.

## **Sources**

Department of Defense FY 2012 Statistical Report on the Military Retirement System  
Iowa Department of Revenue

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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